

VZCZCXYZ0008
PP RUEHWEB

DE RUEHYN #1461/01 2461040
ZNY CCCCC ZZH
P 021040Z SEP 08
FM AMEMBASSY SANAA
TO RUEHC/SECSTATE WASHDC PRIORITY 0237
INFO RUEHDJ/AMEMBASSY DJIBOUTI PRIORITY 0575
RUEHNR/AMEMBASSY NAIROBI PRIORITY 0420
RUEHRH/AMEMBASSY RIYADH PRIORITY 1552
RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUCPDO/USDOC WASHDC PRIORITY

C O N F I D E N T I A L SANAA 001461

SIPDIS

EEB/ESC/IEC/EPC FOR MATTHEW MCMANUS
AMEMBASSY NAIROBI FOR SOMALIA AFFAIRS UNIT
DEPARTMENT FOR NEA/ARP FOR AMACDONALD

E.O. 12958: DECL: 08/27/2018
TAGS: [EAID](#) [ECON](#) [ENRG](#) [EPET](#) [PGOV](#) [DJ](#) [SA](#) [SO](#) [SU](#) [YM](#)
SUBJECT: DIESEL PROBLEM MORE CRISIS OF SUPPLY THAN PRICE

REF: A. 05 SANAA 1976
[1](#)B. 07 SANAA 1210

Classified By: CDA Angie Bryan for reasons 1.4 (b) and (d)

[1](#)1. (C) SUMMARY: Persistent diesel shortages attributed to high demand, low refinery capacity and corruption have plagued Yemen since May 2008. As a result, the ROYG has decided to take a number of measures to increase diesel supply. The high international price of oil has forced the ROYG to pursue a step-by-step lifting of oil subsidies over a period of three years, beginning with diesel fuel subsidies for cement and iron factories on August 9. In spite of these efforts, it is unlikely that the diesel shortage and related high prices will end anytime soon. END SUMMARY

[1](#)2. (U) Yemen has experienced widespread diesel fuel shortages since May 2008, with owners of agricultural machinery, trucks and bakeries suffering the most. There are long lines at most gas stations, and diesel supplies usually last only two-to-three hours each day. World Bank senior economist Ali Abdulrizq told Econoff on August 23 that the problem is more acute in the southern port city of Aden. According to media reports, the diesel fuel shortage became so severe in Aden on August 19 that it prompted Aden Governor Adnan Omar al-Jafari to pay a visit to the Yemen Petroleum Company (YPC), which in turn pumped an additional 600,000 liters of diesel fuel into gas stations. Problems have also occurred in Dhale and Ibb. Local contacts on the ground in Ibb informed Econoff on August 25 of a major gasoline and diesel shortage and noted that most gas stations had no fuel to sell. (Note: Local supplies of diesel and gasoline traditionally run out in Ibb right before Ramadan as it is a popular tourist destination during that period. Ramadan began on September 1. End note.)

SUPPLY OF DIESEL AFFECTED BY HIGH DEMAND, LIMITED CAPACITY
AND CORRUPTION

[1](#)3. (C) One of the main causes of the shortage is the failure of supply to keep up with demand. In an August 24 meeting with Econoff, the Advisor to YPC's Director General of Foreign Affairs, Mohammed Alsefyari, explained that the supply of diesel in Yemen has remained flat at 243,000 tons between 2006-08, while demand has increased. Alsefyari indicated that Yemen would need an additional 240,000 tons per year in order to fill the gap.

[1](#)4. (C) Limited domestic refining capacity is also a factor in the diesel shortage. According to World Bank economist Ali Abdulrizq, the nation's two refineries in Aden and Mareb

produce only 130,000 bpd and are aging. The Yemeni media reported that one of the refineries operated by Safer malfunctioned in mid-August, thus exacerbating the situation. (Note: Post could not confirm this report. End note.) Management shortfalls, logistical delays of imported diesel consignments, and months of speculation that the ROYG was preparing to lift subsidies also have contributed to the diesel shortage, according to the World Bank.

15. (C) A final factor in the diesel crisis is corruption. Yemen Consumer Protection Association Secretary General Mahmoud Naqib complained to Econoff on August 20 that much of the domestically produced diesel supplies are smuggled to Saudi Arabia, Sudan, Somalia and Djibouti, where producers can get a higher price. Al-Affendi told Econoff that ROYG figures for total diesel supplies are unreliable and not transparent. For example, the actual need for diesel may be 5 million liters, but the ROYG announces that it needs 10 million. The additional 5 million liters is then sold to the world market. Al-Abbasi mentioned that only 20 percent of subsidies go to the poor.

MEASURES TAKEN TO RELIEVE IMPACT OF DIESEL SHORTAGE

16. (C) The ROYG may take a number of measures to buffer the Yemeni consumer from the impact of diesel shortages and the lifting of subsidies. Abdulrizq stated that the ROYG plans to establish a strategic petroleum reserve stockpile and MOPIC plans to increase the number of Yemenis covered under the Social Welfare Fund (SWF) from 1,000,000 to 7,000,000. (Note: Other observers, like think-tank director Mohammed al-Affendi, are more skeptical and believe that SWF benefits would be distributed for political reasons rather than according to need. End note.) YPC's al-Safyeri noted that the ROYG plans to build another unit at the Aden refinery within six years to boost production. Alternative energy sources may also be a solution. Many electricity generating plants in Yemen which currently use diesel may switch to natural gas. When the Yemen Liquefied Natural Gas (YLNG) project comes on-line at the beginning of 2009 (reftel B), public demand on limited diesel supplies may be much less.

"ALARMING" EXPENDITURES ON OIL SUBSIDIES . . .

17. (C) Yemen has been affected not only by the shortage of diesel fuel, but also by record high oil prices in the global marketplace. Yemen imports 60 percent of its diesel fuel, and high oil prices have subsequently driven up the cost of diesel. This is a drain on ROYG funds as the price of diesel fuel in Yemen is subsidized by the government. The Deputy Minister of Planning and International Cooperation (MOPIC), Mutaher Al-Abbasi, told Econoff on August 26 that oil subsidies accounted for 35 percent of the 2008 public budget. He noted that the ROYG spent YR 600 billion on oil subsidies in 2007 and that the bill for the first half of 2008 was higher than the first half of 2007. He called the import bill on diesel "alarming," and said it caused severe balance of payments problems for the ROYG.

... LEAD TO LIFTING OF DIESEL SUBSIDIES

18. (U) In order to rein in spending, on August 9 the ROYG decided to raise the price of diesel sold to cement and iron factories from 35 Yemeni riyals per liter to the world price of 252. World Bank economist Abdulrizq said that the ROYG is pursuing a "step-by-step" approach over a span of "two-to-three years" rather than lifting all of the diesel subsidies at once to soften the impact on the poorest segments of society. (Note: The ROYG simultaneously lifted subsidies on diesel and gasoline in July 2005, sparking riots that led to 50 deaths (reftel A). End note.) He noted that the lifting of diesel subsidies for cement and iron factories would cause prices in the construction sector to increase. Many experts believe that as the cost of building houses goes up as a result of higher cement prices, landowners will

charge higher rents for these houses. The lifting of the subsidies has already affected the transportation sector: bus fares in Aden doubled from YR 5 to YR 10 (the equivalent of US three to five cents) per trip in the third week of August.

COMMENT

19. (C) There are no signs that the diesel fuel shortage and high oil prices will end anytime soon. Use of alternative energy sources (like natural gas) which decrease local demand for diesel may be an effective first step. Increasing the capacity of local refineries, establishing a strategic petroleum reserve, and increasing the social safety net will take more time. Corruption will probably never be eliminated from the petroleum industry. Post will continue to monitor closely the impact of diesel shortages and the lifting of subsidies on the Yemeni economy, including possible ripple effects on overall price inflation. END COMMENT

BRYAN